HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

St. Catharines-Niagara CMA

Canada Mortgage and Housing Corporation

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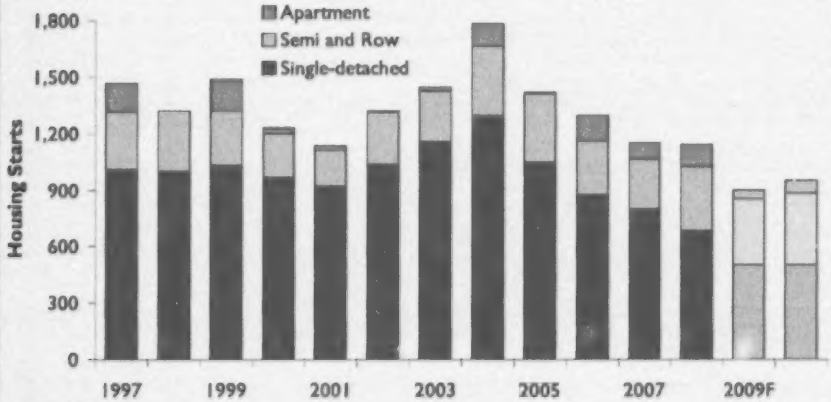
New Home Market

New Home Construction Contracts

Housing starts in the St. Catharines-Niagara CMA (hereinafter Niagara) are projected to decline by 21 per cent to 900 units in 2009 as the economy continues to slow down, the unemployment rate moves higher and demographic requirements temper. Single-detached home starts are forecast to decline 26 per cent in 2009. Given their expensive nature, construction of single-detached homes will be affected more than other housing types, since they have become the most difficult to sell in the current economic environment. Starts of townhouses, which are becoming a more popular homeownership

Figure 1

New Home Construction Declines in 2009



Source: CMHC

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option, will continue to trend up - almost eight per cent in 2009 - due to their affordabi[1] / compared to single-detached homes and also to their increasing popularity with downsizing senior homebuyers. New home construction will pick up gradually in 2010 as the economy starts to recover.

Home starts have been trending down since 2004 as the pent-up demand which existed at the beginning of the millennium gradually decreased. The current level of housing starts is more aligned with the long-term demographic requirements of the region.

Despite the sluggishness in new home construction a number of new adult lifestyle communities, as well as condominium and brownfield redevelopment projects are planned to start or continue this year. Infill housing projects built on former industrial land - a type of construction encouraged by tax incentives - will continue to progress. They are occurring in more densely populated areas, such as downtown St. Catharines, and are increasing residential density.

An increasing share of higher density construction is the result of changing demographics – an aging population with baby-boomers approaching retirement. Housing demand of senior households as well as retirees moving into the region from Toronto and Hamilton will be more concentrated in the adult lifestyle housing segment. On the other hand, the relatively younger segment of the population aged 25 to 44, an age group mostly closely associated with first-time buying, continues to decline.

Home affordability for move-up buyers who are more likely to buy new homes will improve noticeably. In 2009 the historically lowest level of mortgage rates coupled with stable prices for new single-detached homes will translate into a drop in the income required for mortgage carrying costs[1] while actual income of homeowner households[2] will continue to rise. This improvement will somewhat mitigate otherwise declining demand for new single-detached homes. Inventory of completed but unsold homes will creep slightly up but will remain at relatively low levels from the historical perspective and will have minimal effect on prices.

The New Home Price Index (NHPI) for Niagara, which measures the prices at which builders sell new homes of equivalent quality, is projected to decline as a result of falling demand as well as declining spill-over demand from the resale market. Residential construction, although shrinking in the new home construction segment, will be propped up by renovation activity encouraged by government tax credit incentives.

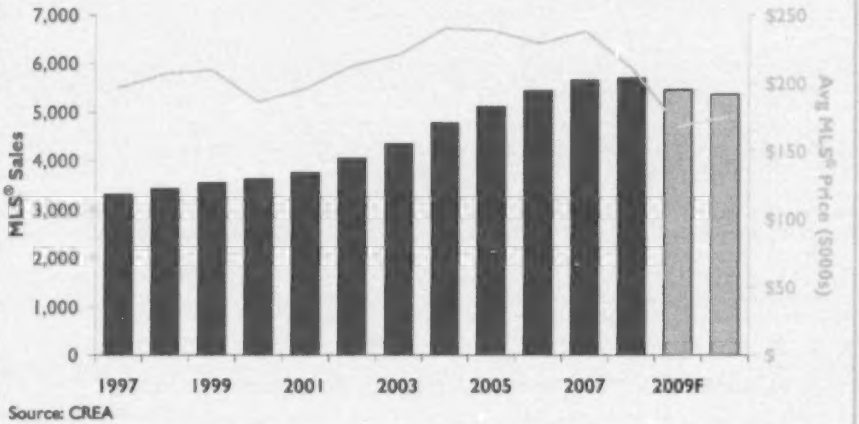
Resale Market

Resale Market to Ease Off Further

The number of home sales in the resale market is forecast to trend lower again in 2009 by 20 per cent to 4,700 transactions before a gradual pickup in 2010. A contracting economy, weakening labour market conditions and slower growth in earnings will weigh on the resale market activity. Cautious consumer

Figure 2

Prices and Sales Lower in Existing Home Market

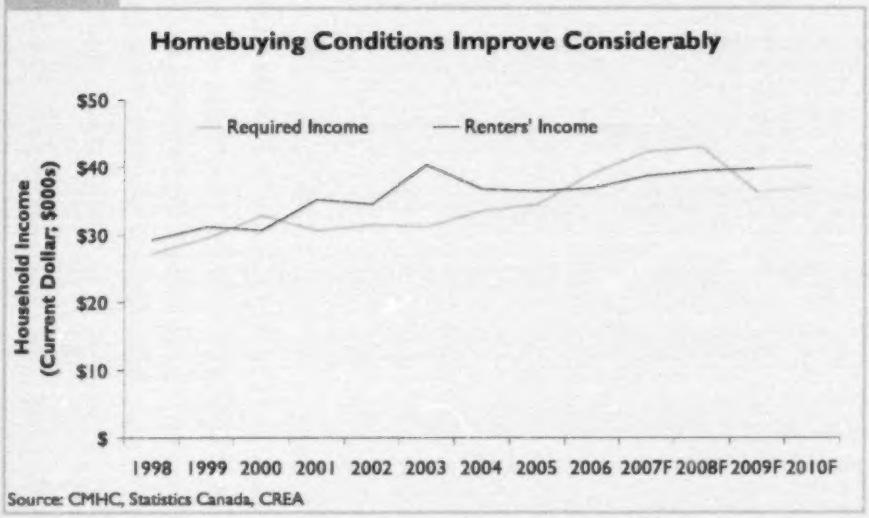


Source: CREA

[1] Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio.

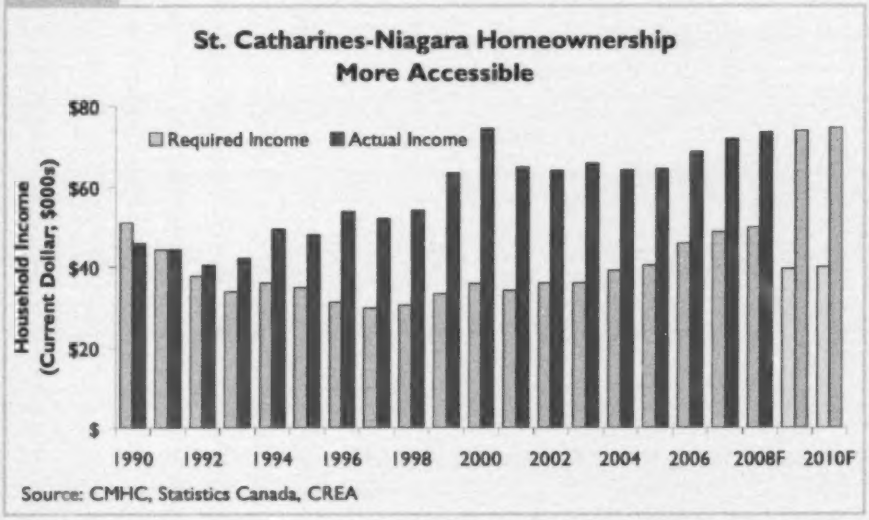
[2] Based on 25 per cent down payment, the forecast of posted fixed five-year mortgage rate, 25 year amortization for a mortgage loan to buy a new single-detached home at median price.

Figure 3



Source: CMHC, Statistics Canada, CREA

Figure 4



Source: CMHC, Statistics Canada, CREA

spending has dampened "big-ticket" consumer purchases, such as houses. Uncertain employment prospects, in spite of the downward trend of mortgage rates, deter many potential buyers from moving into homeownership. However, the downturn in the resale home market will not be as strong as in the new construction market since resale price growth has not been as strong over the past several years.

The number of listings is expected to come down to 12,000 in 2009 which is a drop of 3.4 per cent from 2008 level. Faced with a softening resale market, some sellers will withdraw their listed properties from the market. With the drop in sales surpassing the decline in listings, the Sales-to-New-Listings Ratio (SNLR), a leading indicator of future price growth and a good measure of market conditions, is projected to retreat to about 42 per cent.[3] This will bring the ratio down closer to the boundary of balanced and buyers' market conditions. The market at this level of SNLR is typically accompanied with stable or easing resale home prices.

The decline in the average resale home price will be partly attributable to a change in the mix of homes sold in the resale market. There will be more demand for homes with an asking price at the lower end of the price range. Buyers will have a greater selection of homes from which to choose that meets their needs and which they can afford.

Economic Factors

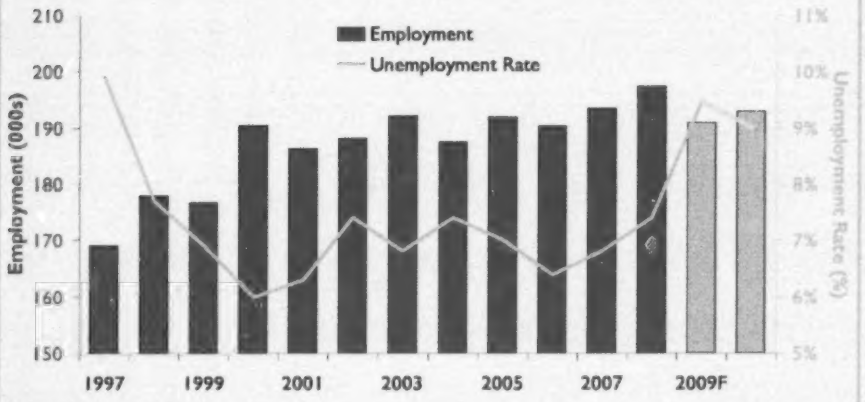
Lower Employment Forecast for 2009

As in many other areas across Canada, Niagara's labour market outlook for 2009 is bleaker as many businesses shed workers to cut overhead costs. The region's manufacturing industry is affected the most, with sizable job losses occurring in the automotive industry.

[3] Based on a five per cent down payment, the forecast posted fixed five-year mortgage rate, the maximum amortization period in effect during the year and the average MLS® price.

Figure 5

Labour Market Conditions Deteriorate



Source: Statistics Canada

Led by layoffs at General Motors of Canada, several suppliers of automotive parts across the region also let employees go. The fall in auto sales and dropping demand not only locally but in overseas markets necessitated layoffs at, for example, a downsizing steel plant and a producer of vinyl product as well as at other manufacturing and construction companies. Employment in the service sector is being negatively impacted too. Financial, business and recreation services all experienced a contraction in their labour force. As a result, employment is projected to drop by 3.2 per cent in 2009 and the unemployment rate increase to 9.5 per cent.

Unemployment is hitting older and younger age employees relatively harder than middle age group. The former group is losing jobs in traditional manufacturing sectors, whereas the younger employees are more vulnerable to the swings in consumer spending on services. However, the reduction in employment will be consistent with the demographic trends of an aging population. As more baby-boomers will be retiring in the coming years, the labour market will become more dependent on migrants coming to the region from other areas within Canada or other countries.

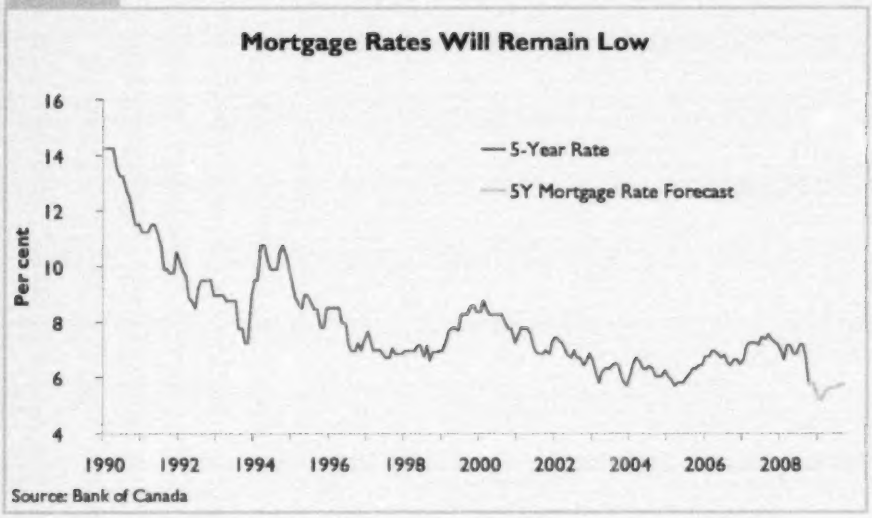
The other positive news is that despite overall contraction of employment there is demand for labour in some segments of the job market including an increasing requirement for skilled workers. Brock University and Niagara College are hiring more staff to accommodate the needs of those interested in retraining and pursuing second career programs, funding for which is made available through the provincial government. Moreover, increasing government spending on infrastructure will help to boost employment.

The growth in average weekly earnings will slow down to about one per cent this year. Subsiding inflationary pressures, excess labour supply and a weak economic performance will dampen labour income growth in 2009.

The downward revision from the previous quarter's forecasts of housing market and economic indicators for the region is attributable to worse-than-expected performance of the economy. Consumer spending, investment and exports all are impacted. The centres more exposed to economic activity in the US, such as Niagara, have seen worsening of trade and manufacturing production conditions. This deterioration of economic conditions precipitated job shrinkages pulling down overall demand for homes.

Niagara's net migration will gradually increase due to a lower number of inter-provincial migrants moving to western provinces as the employment opportunities dry up there. Following the trend of recent years the region's population growth is expected to remain around zero.

Figure 6



Source: Bank of Canada

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Forecast Summary St. Catharines - Niagara CMA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	6,410	6,668	5,896	4,700	-20.3	4,900	4.3
MLS® New Listings	11,661	11,710	12,428	12,000	-3.4	12,200	1.7
MLS® Average Price ($)	194,671	202,314	203,648	195,000	-4.2	192,000	-1.5
New Home Market							
Starts:							
Single-Detached	873	798	680	500	-26.5	500	0.0
Multiples	421	351	458	400	-12.7	450	12.5
Semi-Detached	102	60	56	40	-28.6	50	25.0
Row/Townhouse	184	207	288	310	7.6	330	6.5
Apartments	135	84	114	50	-56.1	70	40.0
Starts - Total	1,294	1,149	1,138	900	-20.9	950	5.6
Average Price ($):							
Single-Detached	323,359	342,933	375,998	370,000	-1.6	370,000	0.0
Median Price ($):							
Single-Detached	299,900	305,000	339,000	340,000	0.3	340,000	0.0
New Housing Price Index (% chg.)	4.3	3.1	3.5	-1.0	-	0.0	-
Rental Market							
October Vacancy Rate (%)	4.3	4.0	4.3	4.0	0.3	4.0	-0.3
Two-bedroom Average Rent (October) ($)	752	765	777	790	-	800	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.30	6.90	6.70	4.80	-1.90	5.60	0.80
Mortgage Rate (5 year) (%)	6.70	7.10	7.10	5.30	-1.80	5.90	0.60
Annual Employment Level	190,200	193,500	197,400	191,000	-	193,000	-
Employment Growth (%)	-0.9	1.7	2.0	-3.2	-	1.0	-
Unemployment rate (%)	6.4	6.8	7.4	9.5	2.1	9.0	-0.5
Net Migration (x County) [1]	88	-543	-50	460	510	680	220

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over; MLS® data includes the St.Catharines, Niagara, and Welland boards
(1) 2008 migration data is forecasted.

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